



Global Financial Services – Upstream
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June 6, 2006

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e-mail subject: RIN 1010-AC29
Comment due date: June 6, 2006

RE: Commentary on proposed rulemaking
Amendments to Federal Oil and Gas Royalty Management Act (FOGRMA) section §111(k)(1)-(4).
“Takes vs. Entitlements where gas is commingled upstream of royalty measurement point (RMP)”

ConocoPhillips Company and its affiliates who are oil & gas lessees, producers and payors of Federal royalties to the Minerals Management Service on approximately 2,000 Federal offshore Gulf of Mexico(GOM) and Federal onshore leases (“ConocoPhillips”), respectfully submits the following for the record as it pertains to the proposed amendment referenced above:

ConocoPhillips understands that in the offshore (GOM), platform imbalances may exist between producers at the approved Royalty Measurement Point (RMP). Also, many of the offshore Federal leases are 100% Federal. This combination can cause producers to in effect take gas from federal leases where that producer may not be the lessee of record, or a producer/payor on that Federal lease. This can cause the lessee/producer/payor of the Federal lease in question to have to pay Federal royalties on a volume that is not consistent with their takes volumes.

Previously, comments were submitted by COPAS and American Petroleum Institute (API), which ConocoPhillips supports. ConocoPhillips now submits these additional comments on its own behalf as a producer of oil & gas from Federal leases. ConocoPhillips supports option # 2 (“Pure Entitlements”) as described in the Federal Register/Vol. 71, No. 67/Friday April 7, 2006/Proposed Rules/page 17776 as **long as the proposed rule applies to offshore Federal leases only.**

Whether the proposed rule is adopted for offshore Federal leases only, or whether the proposed rule includes both offshore and onshore Federal leases, ConocoPhillips would like to make the following comments.

Understanding that there are two separate parts to the proposed rulemaking, one dealing with a redefinition of the Royalty Simplification and Fairness Act of 1996 (RSFA) requirements as to when payment is to be made on a “takes” basis, and when payment is to be made on an “entitlements” basis, and, the other part dealing with valuation of entitlements, ConocoPhillips would like to comment on each part separately.

1) **MMS proposal to change the payment method from takes to entitlements in the case where leases behind an approved Royalty Measurement Point (RMP) are “blended” leases (i.e. Federal leases, and State or Fee leases).**

- a.) ConocoPhillips comments that since the above scenario may apply to the thousands of offshore and onshore wells where surface commingling or down-hole commingling takes place, the proposed rule needs a clarification stating that the MMS and BLM will have the responsibility for the identification of, and notice to lessees/producers of the specific Federal leases that will be switching from takes to entitlements payment methods. The MMS and BLM performed this identification/notification process at the time of RSFA implementation as it related to communitization agreements and unitization agreements to be paid on takes or entitlements.
- b.) ConocoPhillips comments that since it is entirely likely that some wells on a single Federal lease may be either surface or down-hole commingled and meet the criteria for payment on entitlements in the proposed rule, and, that other wells on that same single Federal lease do not meet the criteria, and therefore are to be paid on a takes basis, the MMS in conjunction with the BLM will need to issue unique reporting numbers for Production Reporting (OGOR) and Royalty Reporting (2014). The proposed rule circumvents the definitions of RSFA whereby takes or entitlements payment is dictated by the acreage and types of leases that are dedicated to a state spacing unit, and replaces that definition with payment now being dictated by the lease types flowing into an RMP. In order for the MMS to know it is properly being paid royalties from producers in the above scenario, it is imperative that BLM/MMS issue special reporting numbers for these situations.
- c.) ConocoPhillips comments that, since a change in payment from takes to entitlements in the middle of the production life of a well(s), as opposed to the current regulations which state “the first of the month following the date of completion” of a well, may result in undue financial harm to some producers, the MMS must allow true-ups to be made by payors on the 2014 report back to the “completion date” as described above. The MMS currently has a unique transaction code (35) that allows for this re-reporting in the case of communitization and unitization agreements. It was mentioned at the public comment meeting in Lakewood on May 10, 2006, that the MMS could not keep producers from re-reporting (true-up) from takes to entitlements for the RSFA statute of limitations time period (6 years), however, producers could not true-up past the 6 year statute of limitations time period. ConocoPhillips feels that since the proposed takes/entitlements rule is a change in application of the RSFA statute, that allowance should also be made by applying the RSFA statute of limitations to allow producers to true-up under the new rule.
- d.) ConocoPhillips comments that if onshore Federal leases are included in the proposed rule, many States implement the same methodology as the MMS for determining when State royalties are to be paid on takes and when State royalties are to be paid on entitlements. However, most of these States do not have statute of limitations reporting requirements that are the same as RSFA described in para. C above. This will cause an undue burden on producers when designing and implementing system design modifications that would need to allow for true-up adjustments for different time frames for States vs. MMS.

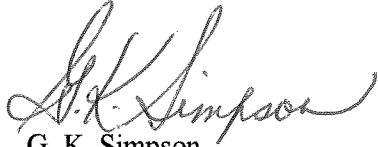
2) **Valuation – “... a lessee would need to value its entitled share. The MMS believes that the best means of valuing the entitled share is to apply a volume weighted average of the royalty values to the volumes actually taken to the entitled share of volumes undertaken.”**

- a) ConocoPhillips comments that the above statement is unclear, and that a clarification of what is actually meant would need to be made in the rule. For example, is the above valuation methodology only to be used to value entitlements when gas is commingled upstream of the RMP, or is the above valuation methodology to be used any time a producer is under produced on any Federal lease that by RSFA definition requires payments on entitlements (e.g. current

unitization agreements). Additionally, ConocoPhillips would like to go on the record as stating that if the interpretation, whether implied or in actuality, of the above statement in any way whatsoever would require ConocoPhillips to discuss/share pricing information either verbally or in writing with any other producer, ConocoPhillips would object to such a requirement.

Thank you for allowing us to enter our comments into the public record.

If you should have any questions, please contact Steve Wendling at 817-347-2730, e-mail swendling@br-inc.com.

A handwritten signature in cursive script, appearing to read "G. K. Simpson".

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